European Commission
Directorate-General for Competition
Ref.: HT 582
State aid registry

Athens, March 10th 2020

Dear Sir/Madam,

The Hellenic Union of Industrial Consumers of Energy «UNICEN» is a non-profit consumer association established in 2011 under Greek Law, based in Athens, Greece. UNICEN is registered in the EU transparency register, under id. no. 836745216685-46.

UNICEN represents energy intensive industries in Greece, with an electro-intensity more than 20%, for which energy is a significant proportion of production costs and therefore a key factor of competitiveness at international level.

UNICEN's membership represents a diverse set of energy-intensive industrial sectors, including steel, non-ferrous metals (aluminium, copper), cement, paper, fertilizers, glass, textiles, industrial gases, chemicals and other.

“HELLENIC PRODUCTION – Industry Roundtable for Growth” is a non-profit association founded in 2017 by smaller and larger manufacturing companies and the country’s main regional manufacturing associations and aiming to highlight and strengthen the role of the industrial and manufacturing sector in the Greek economy and to promote the adoption and implementation in Greece of National Industrial Strategy in line with the European Strategy. “HELLENIC PRODUCTION” has grown to 60 members, from a wide range of manufacturing sectors such as mining, pharma, F&B, metal processing, cement, textile, paper & packaging.

UNICEN and “HELLENIC PRODUCTION” hereby submit their joint contribution in respect of the public consultation on the draft ETS State aid Guidelines (Ref. HT582).

The revision of the ETS Guidelines should aim to establish an adequate compensation scheme with a transparent and dynamic set of rules in order to effectively address the risk of carbon leakage due to the indirect ETS costs, whilst incentivising cost efficient decarbonization in line with the EU strategy for long term greenhouse gas emissions reduction.

Within this scope, we present our views on the key issues of the revision:

Aid intensity and degressivity

The draft Guidelines define the maximum aid intensity at 75% and also introduce the possibility for Member States to further limit the exposure of eligible sectors for whom these costs, even after applying the 75% compensation can make up a disproportionate amount of their GVA.

Within this framework, the draft Guidelines provide Member States with the option to further limit the amount of the indirect costs to be paid at undertaking level, to a percentage of the gross value added.

Our view is that an aid intensity capped at 75% will most probably prove to be insufficient to ensure that there is adequate protection against the risk of carbon leakage, taking into consideration that European industry's exposure is on a constant rise, mainly due to the increase of CO2 prices.

In this regard, UNICEN and "HELLENIC PRODUCTION" strongly support the introduction of the new possibility for Member States to further limit the amount of the indirect costs to be paid at undertaking level to a percentage of the GVA of the concerned undertakings, which may reasonably be defined at 0.5%.

The new possibility is thus necessary in order to reduce the risk of market distortions and create a level playing field between EU and non-EU industries.

The draft Guidelines foresee that the electricity consumption efficiency benchmarks shall be updated on the basis of the methodology specified in Article 10a (2) of the EU ETS Directive.

Under this methodology, the Commission shall determine the annual reduction rate for each benchmark and shall apply it to each electricity consumption efficiency benchmark.

The reduction of the benchmarks on an annual basis will have a negative impact on the ETS indirect costs compensation scheme, as it will result in a further reduction of the ETS indirect costs compensation, which in turn means reduced financial resources for investments in energy efficiency and electrification of industry, in line with the EU's strategy for long-term greenhouse gas emissions reductions.

Taking the above into consideration, as well as the fact that the electricity consumption efficiency benchmarks will be updated in 2025, enabling the Commission to effectively

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capture any potential efficiency gains in the sectors concerned, we are of the opinion that the electricity consumption efficiency benchmarks should not be subject to an annual reduction on the basis of the methodology specified in Article 10a (2) of the EU ETS Directive.

Fall-back electricity consumption efficiency benchmark

The draft Guidelines define the fall-back electricity consumption efficiency benchmark as a percentage of the actual electricity consumption. In our view, the percentage should not be set below 80% of the actual electricity consumption, as any further reduction of the amount of the compensation would render the scheme insufficient to achieve its objective of avoiding the risk of carbon leakage.

Conditionality

Our view is that aid granted through the indirect ETS costs compensation scheme should not be made conditional upon additional requirements, as the scheme already foresees a set of rules which allow only partial -and not full- compensation of the eligible undertakings.

In this regard, any further reduction of the level of compensation would render the scheme inadequate to address the risk of carbon leakage.

Nevertheless, should compensation be made conditional upon implementation of additional measures to be taken at undertaking level, it has to be ensured that conditionality will not put a disproportionate burden on eligible undertakings.

In view of the above, additional requirements referred to in point 54 of the draft Guidelines should be revised, so as to be in line with the objective pursued and not entail a disproportionate burden for undertaking which already comply with the obligations set by the Energy Efficiency Directive.

Eligible sectors

The list of eligible sectors for compensation has been updated and includes eight sectors, which have been identified as the sectors most exposed to an actual risk of carbon leakage, on the basis of a study assessing the impact of indirect costs on different sectors.

<u>NACE 24 10 Steel production</u>

Even though the steel sector (NACE 2410) is included in the list of eligible sectors for compensation, the assessment classifies the sector only at medium risk.

The EU steel industry is a price taker industry with very low profit margins and the EU market is constantly under great pressure due to the increasing import penetration.

The trade intensity of steel is influenced by the anti-dumping and anti-subsidy measures adopted by the EU against unfair trade practices. In the absence of such measures, the trade intensity would be much higher.

Steel production is an extremely energy intensive process. Since electricity costs are high, the sector has incentives to reduce its electricity consumption. Due to that, it has significantly invested in energy efficiency measures, which accounts for the fact that the sector has limited abatement potential.

Given that the sector is both electro-intensive and highly exposed to international competition, the EU steel industry is unable to pass on additional costs to customers.

Taking the above into consideration, our view is that the steel sector is highly exposed to the risk of carbon leakage due to the ETS indirect costs.

<u>NACE 24 44 Copper production</u>

In accordance with the Commission's explanatory note, <u>additional sectors may be included in the list of the eligible sectors, based on qualitative considerations</u>, provided the sectors concerned have at least an indirect carbon leakage indicator of at least 0.2 and that their carbon leakage risk has been evaluated by the assessment study as medium.

In the draft Guidelines, NACE 24 44 Copper production is not currently in the list of eligible sectors. Copper production shall remain eligible though, on the basis of qualitative considerations, since it fulfils the quantitave criteria, defined by the Commission (i.e. it has an indirect carbon leakage indicator of 0.24 and its RAG rating is defined as medium in the assessment study).

More precisely:

The EU copper production is a price taker industry with very low profit margins, as the EU market price is determined to a very large extent by the LME copper price, which is based on the supply and demand dynamics on the metal exchanges, in particular, the London Metal Exchange (LME).

The import penetration in the EU copper sector is constantly increasing in the last decade, as EU copper production faces fierce competition from international copper producers, which also accounts for the fact that the EU copper sector is not able to pass through carbon costs to customers.

Copper production is one of the most energy intensive sectors in EU and energy costs represent a substantial part of production costs at EU level.

In view of the above, our view is that copper production should be included amongst eligible sectors, during phase 4 of the ETS indirect costs compensation scheme, given that it is one of the EU sectors most exposed to carbon leakage due to the indirect costs of the EU ETS.

NACE 13 10 Preparation and spinning of textile

In the draft Guidelines, NACE 13 10 - Preparation and spinning of textile fibres is also excluded from the list of eligible sectors. While the sector fulfils the quantitave criterion of the indirect carbon leakage indicator (it has a value of 0.244 > 0.2) the assessment study defines its carbon leakage risk as low. We strongly believe that such assessment is partly due to the insufficient representation of the sector and the lack of representative quantitative information during the targeted consultation.

Concerning the market characteristics, it should be noted that undertakings of the sector are price takers, since they sell at a unique global price, while they are unable to pass through indirect ETS costs without genuine risk of losing market share, taking the following into consideration:

-The pricing power over downstream consumers of the sector is really low due to the fact that the output of the sector is of low added value.
-There is a high and rising penetration of extra-EU imports towards exports, highlighted by well-established import routes.
-While output prices are determined by the global market, input costs include both cotton - a commodity with a global price- but also increasing carbon costs.

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Moreover, there is a strong incentive for relocation outside the EU and all new investments are attracted outside the EU ETS Area, as profit margins for EU undertakings are very low, given that indirect ETS costs make up a large share of the production costs.

In this regard, it should be pointed out that, during the last years, numerous undertakings have closed. According to the Hellenic Statistical Authority that provides data for Greece on 4-digit NACE code, in 2011 there were 81 undertakings in the sector with a total turnover of 169M€ and a total number of 1.532 employees[1], while in 2016 there were 51 undertakings in the sector with a total turnover of 99M€ and a total number of 1.150 employees[2].

Concerning the abatement potential of the sector, it should be noted that the large majority of EU undertakings have already adopted the best available techniques, which essentially means that incentives for further investments are very limited.

In view of the above, our view is that NACE 13 10 - Preparation and spinning of textile fibres should remain amongst eligible sectors, as it is facing a significant risk of carbon leakage due to the indirect costs of ETS.

NACE 23 51 Manufacture of cement

NACE 23 51-Manufacture of cement is not included in the list of eligible sectors, given that its RAG rating is defined as medium-low, while its indirect carbon leakage indicator is 0.135.

It should be pointed out though that market characteristics of the sector, such as pricing power that is constrained by strong competition from third countries, do not seem to have been taken into account.

The sector is highly exposed to an actual risk of carbon leakage due to the ETS indirect costs. Such risk is higher in the context of increasing carbon prices.

EU cement industry is a price-taker industry strongly exposed to increasing competition from non-EU countries, not bearing the EU ETS charges and is thus, unable to pass higher energy costs on the downstream market, without a genuine risk of losing market shares.

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[1] Hellenic Statistical Authority data with number of legal units, turnover and employment per four-digit branch of economic activity in the whole Country for 2011 link [table 4]

[2] Hellenic Statistical Authority data with number of legal units, turnover and employment per four-digit branch of economic activity in the whole Country for 2016 link [table 4]

At the same time, profit margins are low and the prospects of investment in the EU ETS area are worsening, as the domestic demand is steadily on decline.

The sector has already heavily invested in energy efficiency improvements, hence, there is little scope for further reduction in indirect carbon costs.

On a side note, it should be stressed that concrete is a non-eligible building material that competes on the downstream construction market with steel, which is eligible for indirect compensation. Hence, there is a risk that the ETS indirect costs compensation scheme may actually result in inter-sectoral competition distortions within the EU market.

In view of the above, our view is that the Commission should consider revising the criteria, on the basis of which, sectors are identified as being at a significant risk of indirect carbon leakage, in order to ensure a fair and equal treatment for EU sectors that are competing on downstream markets.

We remain at your disposal for any further clarification.

Yours sincerely,

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Chairman of the Board

UNICEN

Kostas Theos

Director

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